

JIM IRVIN
COMMISSIONER-CHAIRMAN
TONY WEST
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER



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BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: May 12, 1999

DOCKET NO.: W-02467A-98-0748 AND W-02467A-99-0040

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Marc E. Stern. The recommendation has been filed in the form of an Order on:

GRANITE MOUNTAIN WATER COMPANY, INC.
(LONG-TERM DEBT)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

MAY 21, 1999

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

JUNE 1, 1999 AND JUNE 2, 1999

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
COMMISSIONER-CHAIRMAN
3 TONY WEST
COMMISSIONER
4 CARL J. KUNASEK
COMMISSIONER
5

6 IN THE MATTER OF THE APPLICATION OF
7 GRANITE MOUNTAIN WATER COMPANY,
INC. FOR THE APPROVAL OF LONG-TERM
8 DEBT OR OTHER EVIDENCES OF
INDEBTEDNESS.

DOCKET NO. W-02467A-98-0748

9 IN THE MATTER OF THE APPLICATION OF
10 GRANITE MOUNTAIN WATER COMPANY,
INC. FOR APPROVAL TO ISSUE LONG-TERM
DEBT OR EQUITY.

DOCKET NO. W-02467A-99-0040

DECISION NO. _____

11 **ORDER**

12 Open Meeting
June 1 and June 2, 1999
13 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 On December 23, 1998, Granite Mountain Water Company, Inc. ("Applicant" or Company")
16 filed with the Arizona Corporation Commission ("Commission") an application requesting the
17 Commission's retroactive approval of long-term debt in an amount not to exceed \$5,000.

18 On January 29, 1999, the Company filed an application requesting the Commission's
19 authorization to execute a long-term financing agreement or authorize Applicant to issue equity in
20 order to finance construction of new water lines and improvements.

21 On April 13, 1999, the Commission's Utilities Division ("Staff") filed its Staff Report with
22 respect to the above-captioned applications. Neither the Company nor Staff requested consolidation
23 of the applications however, because Staff analyzed the applications in one Staff Report, they will be
24 consolidated for purposes of this Order.

25 * * * * *

26 Having considered the entire record herein and being fully advised in the premises, the
27 Commission finds, concludes, and orders that:
28 ...

FINDINGS OF FACT

1
2 1. Applicant is an Arizona corporation engaged in providing water utility service to
3 approximately 28 customers in various parts of Chino Valley, Yavapai County, Arizona.

4 2. On December 23, 1998, the Company filed with the Commission in Docket No. W-
5 02467A-98-0748 an application requesting the Commission's retroactive approval for the issuance of
6 long-term debt in the form of a five year promissory note dated January 22, 1998. The note is
7 payable to Equestrian Development Corporation ("EDC") in the amount of \$5,000 with no interest,
8 and was used for the purchase of a 1978 Case backhoe.¹

9 3. On January 29, 1999, Applicant filed with the Commission in Docket No. W-02467A-
10 99-0040 an application requesting the Commission's approval for the issuance of long-term debt
11 and/or authorization to issue equity in the amount of \$97,327 which is to be utilized for the
12 construction of new water lines and improvements. The Company further requests that the
13 Commission determine the reasonable allocation of the debt and equity authorized hereinafter.

14 4. Concurrently with the Company's application for approval of debt and/or equity,
15 Applicant also submitted a line extension agreement for \$209,518 with Chamberlain Development,
16 L.L.C. ("Chamberlain") for review by Staff.

17 5. Upon Staff's review of the Chamberlain line extension agreement, Staff determined
18 that \$27,813 related to well drilling costs should be added to Applicant's request for financing
19 approval in Docket No. W-02467A-98-0040 because this sum represents an improvement to
20 Applicant's backbone plant.

21 6. Applicant agreed to Staff's recommended revision of its \$97,327 financing application
22 and agreed that it should be increased to a sum of \$125,140.

23 7. On April 9, 1999, Applicant notified its customers of the applications for the long-
24 term financing described herein, and in response thereto, the Commission has received no protests.

25 8. On April 13, 1999, Staff filed its Staff Report, and recommended that the Commission
26 approve \$5,000 in long-term debt for the purchase of the 1978 Case backhoe and approve the
27

28 ¹ EDC is a developer owned and operated by Mr. Paul D. Levie, the Applicant's Vice President.

1 issuance of \$125,140 in equity with the funds produced thereby to be utilized to finance the
2 construction of new water lines and improvements for the Company.

3 9. Upon Staff's review of Applicant's initial application herein for approval of the
4 promissory note for the purchase of 1978 Case backhoe, Staff noted that the Company's 1997
5 Utilities Annual Report included unauthorized long-term debt in the form of nine separate loans
6 totaling \$213,300 which were incurred between July 1, 1985 and June 6, 1996.

7 10. On November 30, 1994, the Commission issued Decision No. 58869 wherein it
8 ordered Applicant to "convert the entire \$210,000 being carried as loans to paid-in-capital".

9 11. Staff noted that Applicant had failed to comply with the Order of the Commission in
10 Decision No. 58869 and that the Company had been continuing to add additional long-term debt
11 which was not approved by the Commission.

12 12. Based on data provided to Staff in Docket No. W-02370A-98-0392 involving Chino
13 Meadows II Water Company, Inc. ("Chino"), another water utility owned by Mr. Levie, the Company
14 actually acquired the 1978 Case backhoe from Chino after Chino had acquired the backhoe from
15 EDC. Applicant then agreed to pay to EDC, Chino's \$5,000 purchase price over a period of five
16 years with no interest and annual payments of \$1,000.

17 13. Based on Applicant's customer growth projections, the Company could well
18 experience a rapid increase to ten times its existing size and, for \$5,000, Applicant is securing the
19 1978 Case backhoe at a bargain price to aid its planned expansion.

20 14. Staff recommends approval of the long-term debt for the 1978 Case backhoe, but will
21 reserve judgement on whether the backhoe should be included in Applicant's rate base until the
22 Company files its next rate case to determine whether or not the backhoe is used and useful.²

23 15. With respect to the application for financing approval for the construction of the new
24 water lines and improvements, Staff reviewed all documentation and inspected construction which
25 has been completed and that which is proposed for Applicant's expected customer growth. Staff
26 recommends the issuance of equity to fund construction, but makes no judgement on whether the

27 _____
28 ² Staff normally would question the need for a backhoe for a water utility with only 28 customers except
for Applicant's planned expansion.

1 proposed financing for construction should be included in Applicant's rate base until its next rate case
2 to determine whether these improvements were reasonable and necessary for the provision of service
3 and whether the new plant items are used and useful.

4 16. According to Staff, the Company is in poor financial health and current customers will
5 only benefit marginally from the proposed new water lines and other improvements.

6 17. Based on Staff's analysis, the Company experienced an approximate operating loss of
7 \$11,100 for the year ended December 31, 1996, and while operating revenues increased by
8 approximately \$2,360 for the year ended December 31, 1997, the Company still experienced an
9 operating loss of approximately \$8,500.

10 18. Applicant has continued to lose money since it was incorporated in 1985. In large
11 part, the losses are due to the Company's minimal customer base. There is evidence that the
12 Company is growing since it experienced a 32 percent increase in customers between 1994 and 1997.

13 19. With the adoption of Staff's recommendation to approve \$5,000 in long-term debt for
14 the 1978 Case backhoe, Applicant's capital structure would be only minimally affected. After the
15 removal of the unauthorized long-term debt of approximately \$213,000, Applicant's long-term debt
16 would increase only marginally to 3.3 percent from 0 percent and equity would decrease from 100
17 percent to 96.7 percent.

18 20. Staff did not perform an analysis of Applicant's ability to service the debt which Staff
19 is recommending be approved because of the Company's ongoing operating losses which would
20 prevent a meaningful study from being performed. However, because of depreciation expense, Staff
21 found there is sufficient cash flow to meet the backhoe debt.

22 21. Because of Applicant's poor financial condition as described herein is recommending
23 that Applicant be authorized by the Commission to only issue common stock in an amount up to
24 \$125,140 in order to fund the Company's proposed new water lines and other improvements.

25 22. After our review of these applications, we believe that \$5,000 for the 1978 Case
26 backhoe and the issuance of up to \$125,140 in common stock to fund new water lines and other
27 improvements are appropriate forms of financing for Applicant and that said sums should be
28 approved at the terms and conditions recommended by Staff. Additionally, the Company should file

1 copies of all executed loan documents and/or confirmation that the common shares have been issued
2 and should not enter into any long-term financing agreements without prior Commission approval.

3 **CONCLUSIONS OF LAW**

4 1. Applicant is a public service corporation within the meaning of Article XV of the
5 Arizona Constitution, A.R.S. §§ 40-301 and 40-302.

6 2. The Commission has jurisdiction over Applicant and of the subject matter of the
7 applications.

8 3. Notice of the applications was provided in the manner prescribed by law.

9 4. The Company's application for long-term debt for the 1978 Case backhoe should be
10 approved in an amount not to exceed \$5,000, repayable with no interest for a period of five years.

11 5. The Company's application for long-term debt and/or for the issuance of equity to
12 fund new water lines and other improvements should be approved for the issuance of up to \$125,140
13 in common stock.

14 6. The proposed long-term financings for \$5,000 and \$125,140, subject to the
15 recommended terms and conditions by Staff, are for lawful purposes within Applicant's corporate
16 powers, are compatible with the public interest, with sound financial practices, and with the proper
17 performance by Applicant of service as a public service corporation, and will not impair Applicant's
18 ability to perform that service.

19 7. The financings approved herein are for the purposes stated in the applications and are
20 reasonably necessary for those purposes, and such purposes are not wholly or in part reasonably
21 chargeable to operating expenses or to income.

22 8. The Company's applications for \$5,000 in long-term debt and the issuance of up to
23 \$125,140 in common stock, and subject to Staff's recommendations as to the terms and conditions,
24 should be summarily granted.

25 **ORDER**

26 IT IS THEREFORE ORDERED that Granite Mountain Water Company, Inc. be, and the
27 same hereby is, authorized to incur long-term debt in an amount not to exceed \$5,000 with no interest
28 for a period of five years.

1 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. be, and the same
2 hereby, is authorized to issue up to \$125,140 in common stock.

3 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. be, and the same
4 hereby is authorized to engage in any transactions and to execute any documents necessary to
5 effectuate the authorizations granted hereinabove.

6 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Granite
7 Mountain Water Company, Inc.'s use of the proceeds for the purposes set forth in the applications.

8 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
9 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
10 proceeds derived thereby for purposes of establishing just and reasonable rates.

11 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall, in the future,
12 not issue any long-term debt or other evidences of indebtedness without prior Commission approval.

13 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall file, within
14 30 days of finalization, with the Director of the Commission's Utilities Division, a copy of all loan
15 documents which set forth the terms of the long-term debt as approved herein if not previously filed.

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1 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall file
2 certification, within 30 days of issuance, with the Director of the Commission's Utilities Division that
3 the above-mentioned common stock has been issued and the proceeds received.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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8 COMMISSIONER-CHAIRMAN

COMMISSIONER

COMMISSIONER
9
10

11 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
12 Secretary of the Arizona Corporation Commission, have
13 hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this ____ day of ____, 1999.

16
17 BRIAN C. McNEIL
18 EXECUTIVE SECRETARY
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DISSENT _____
MES:bbs

1 SERVICE LIST FOR:

GRANITE MOUNTAIN WATER COMPANY, INC.

2 DOCKET NO.

W-02467A-98-0748 AND W-02467A-99-0040

3 Paul D. Levie, Vice President
4 GRANITE MOUNTAIN WATER COMPANY, INC.
5 P.O. Box 450
Chino Valley, Arizona 86232

6 Paul Bullis, Chief Counsel
7 Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
8 Phoenix, Arizona 85007

9 Director, Utilities Division
ARIZONA CORPORATION COMMISSION
10 1200 West Washington Street
Phoenix, Arizona 85007